

WATER/KPC/ev8

Ratesetting

Decision 05-07-021 July 21, 2005

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of DEL ORO WATER COMPANY, INC. U-61-W for authority to borrow approximately \$500,000 (and to issue evidence of indebtedness in connection herewith) in order to make certain capital improvements and contract engineering studies and for authority to recover all such costs and advances by increases in the respective water rates of customers in its Johnson Park District in the vicinity of Burney, Shasta County, California.

Application 05-02-024
(Filed February 23, 2005)

**OPINION GRANTING AUTHORITY TO SECURE A FINANCING
IMPROVEMENT LOAN**

I. Summary

This order grants Del Oro Water Company, Inc. (DOWC) the authority requested in this Application (A.) 05-02-024 (Application) pursuant to Pub. Util. Code §§ 816 through 819¹, to enter into a loan agreement with a bank or commercial lender for the purpose of borrowing \$500,000. The loan proceeds will be used to finance the cost of engineering, construction and completion of capital improvements to be conducted in DOWC's Johnson Park District.

DOWC may file for rate base offsets on portions of the project in Johnson Park that would be completed and are used and useful, subject to

¹ All statutory references are to the Public Utilities Code unless otherwise indicated.

reasonableness review. No specific rate increase will be addressed in this proceeding because construction expenditures are unknown at this time.

Notice of the filing appeared on the Commission's Daily Calendar of February 25, 2005. The Water Division (WD) filed a protest on March 25, 2005. Subsequently, DOWC submitted the necessary documentation for the proposed capital expenditures.

II. Background

DOWC is a Class B water utility subject to the jurisdiction of this Commission. DOWC provides water to the unincorporated area of Magalia (Paradise Pines District and Magalia District); a portion of the southern boundary of the Town of Paradise and the entire former Lime Saddle Community Service District (Lime Saddle District); the City of Ferndale (Ferndale District); the unincorporated area of Johnson Park (Johnson Park District); a subdivision within the City of Bakersfield (Country Estates District); and its recent acquisitions near California Hot Springs (Pine Flat and Pine Mountain). DOWC provides service to residential, commercial and industrial customers in each of its districts.

Johnson Park

Johnson Park currently serves 308 metered customers through 26,150 feet of two-inch standard screw mains. The system has both short term and long term problems.

On April 6, 2005, the Fire Chief of the Burny Fire Protection District indicated that the system needs repair and upgrading for domestic use and minimal fire flows for fire protection. The system cannot sustain any regulatory fire flow or pressure during fire flow suppression testing. The system falls short of the 1,000 gallons per minute required by the fire district under the California Fire Code.

DOWC's personnel have reported wide range low pressure (30 psi or lower) throughout the residential areas during summer month high usage days. The system does not contain adequate resident fire flow storage. There are no provisions for operating or emergency storage. According to an engineering report commissioned by DOWC, the engineers have found that system booster pumps are controlled by a hydropneumatic tank that is not a legal American Society of Mechanical Engineers (ASME) code pressure tank and is not safe. The report recommends replacing the tank immediately. They also reported that water system does not meet the minimum system piping sizes required by General Order (GO) 103 and the California Waterworks Standards during high demand periods.

DOWC states that the capital improvement program for the Johnson Park District is estimated at \$573,758 from 2005-2009, of which \$65,000 is for 2005 and \$377,000 is for 2006. The 2005-2006 total of \$442,000 includes \$322,000 for engineering costs and construction costs of a welded steel storage tank with earthquake resistant foundations. The proposed construction expenditures are part of the Water System Master Plan for the Johnson Park District.

III. Discussion

A. Annual Construction Budgets

DOWC's capital improvements and contract engineering studies in Johnson Park are estimated at a total cost of \$573,758. DOWC's estimated construction budgets for 2005 through 2009, as shown in its supplemental data to the Application, are as follows:

Components	2005	2006	2007	2008	2009	Total
Construct New 250 M Welded Steel Storage Tank	\$35,000	\$286,750				
CEQA – Mitigated Negative Declaration for the Storage Tank site; including CEQA related engineering	\$30,000					
Construct New 10 HP Booster Pump facility			\$12,870			
Replace Well Pumps (2 pumps @\$10K each)					\$25,740	
Electrical System Replacement and/or upgrades			\$64,350			
SCADA/Telemetry System Installation		\$10,000		\$28,610I		
Install New 12-inch Mainline		\$80,438				
Totals	\$65,000	\$377,188	\$77,220	\$28,610	\$25,740	\$573,758

According to DOWC, the proposed engineering studies and improvements to Johnson Park District will address the chronic lack of fire suppression, operational and emergency storage for the system. The added and necessary benefit is the removal from service of the non-ASME code hydropneumatic tank and the ability to gravity-feed the system during prolonged power outages or other emergencies.

Long term system solutions include the development of a pipeline replacement schedule to replace the numerous undersized system pipelines (the main cause of low pressure during periods of high demand) and bring the system in compliance with current standards.

B. Water Master Plan

The Water Master Plan for the Johnson Park District water system developed by Luhdorff and Scalmanini Consulting Engineers consists of the following recommendations:

1. A field review of the existing facilities and records.
2. A review of past and present water usage including a cursory analysis of potential future growth. From this review, a determination of present and future water usage will be made. The result from this task will be utilized to determine the required production capacity, and serve as a basis for a hydraulic analysis of the system.
3. Perform a hydraulic analysis of the water system for use in the development of a main replacement and storage facility installation program.
4. Perform a geological review of the service area in an attempt to determine the best locations to construct and develop ground water well(s). The review will consist of a field visit, a review of available literature on existing sources of supply and previous geological studies, followed by a letter report of findings with recommendations.
5. Provide a detailed capital improvement plan that will describe the facilities to be added, modified, and/or replaced, a cost for the improvement, and a time frame for the work to be accomplished.
6. Provide a letter report that will encapsulate all findings from the field and records review, the system hydraulic analysis, incorporation of the geological review, and recommendations for improvements along with the associated improvement program.

C. Description of Financing

DOWC has not at the present time entered into any contract for the loan requirement. However, North Valley Bank has submitted a letter of intent, attached as Exhibit D to the Application, for a commercial term loan of \$500,000 at a fixed rate of 6.75% for the first five years and converting every five years to a fixed rate equal to the 11th District Cost of Funds Index (then in effect) plus 3.50%. Total term is 15 years. Requests for disbursements are to be accompanied by itemized listing of costs and invoices. The lender will also require the utility to adhere to certain financial ratios and may require inspection of the project by a third party inspector.

Many projects, including this Application, are built to comply with new drinking water regulations and utility requirements. Since the funding process is a lengthy one, it is not unusual for project construction to commence before the project is funded. DOWC states in the Application that it may use money from its treasury to initially fund the project in the interest of being in compliance with California Fire Code requirements and to provide improved service to customers. When the Application is approved, the loan proceeds will subsequently reimburse DOWC's treasury for costs incurred, if any. The proposed project is not included in Johnson Park District's current rates.

D. Loan Approval

Article 5 of Chapter 4 of the Public Utilities Act (which is Part 1 of Division 1 of the Pub. Util. Code) sets forth conditions a public utility must satisfy to issue debt. One condition is that the debt be for a permitted purpose listed in § 817. That Section states, in relevant part, as follows:

Section 817: A public utility may issue stocks and stock certificates or other evidence of interest or ownership, and

bonds, notes, and other evidences of indebtedness payable at periods of more than 12 months after the date thereof, for any one or more of the following purposes and no others:

(b) For the construction, completion, extension, or improvement of its facilities.

(h) For the reimbursement of moneys actually expended from income or from any other money in the treasury of the public utility not secured by or obtained from the issue of stocks or stock certificates or other evidence of interest or ownership, or bonds, notes, or other evidences of indebtedness of the public utility, for any of the aforesaid purposes except maintenance of service and replacements, in cases where the applicant has kept its accounts and vouchers for such expenditures in such manner as to enable the commission to ascertain the amount of money so expended and the purposes for which such expenditure was made.

The proposed project is for the public good, and thus debt issued to fund the project qualifies under § 817. Another permissible purpose is for the reimbursement of money actually expended from the treasury of a public utility not secured by or obtained from the issuance of debt or equity securities. We conclude DOWC's application satisfies the requirement of § 817.

Pursuant to § 851, we also allow DOWC to encumber its property to secure the debt authorized herein.

We recognize DOWC's efforts to assess the condition and status of the Johnson Park District water system. However, we will not make a finding in this decision on the reasonableness of DOWC's proposed construction program. Construction expenditures and the resulting plant balances in rate base are issues that are normally addressed in rate base offset advice letters.

E. Rate Base Treatment

DOWC requests phased-in rate base offsets for the proposed plant improvements in Johnson Park when various installations are used and useful, and upon completion of engineering studies that will propose projects to correct water quantity and quality problems and eliminate the need to deliver water that may not meet the primary drinking water standards. DOWC proposes to submit reports to the Director of the Water Division on project capital expenditures no later than thirty (30) days after any portion of the project is used and useful.

For capital costs to be included in rate base, DOWC should file an advice letter once the additions to plant have been completed. The filing will be subject to reasonableness review and will require Commission approval.

IV. Categorization and Need for Hearings

In Resolution (Res.) ALJ 176-3149 dated March 17, 2005 the Commission preliminarily categorized this Application as ratesetting, and preliminarily determined that hearings were not necessary. No protests have been received. Given these developments, a public hearing is not necessary, and there is no need to alter the preliminary determinations made in Res. ALJ 176-3149.

Notice of the Application appeared in the Commission's February 25, 2005 Daily Calendar. On March 25, 2005, WD filed a protest for insufficient documentation to justify the proposed capital expenditures. Subsequently, DOWC provided further documentation, making WD's protest moot. There were no other protests. There is no objection to the ratesetting categorization of this Application. A hearing is not necessary.

V. Comments on Draft Decision

This is an uncontested matter in which the Decision pertains solely to a water company. Accordingly, pursuant to § 311(g)(3), the 30-day period for public review and comment does not apply.

VI. Assignment of Proceeding

Kevin P. Coughlan is the assigned Examiner in this proceeding.

Findings of Fact

1. DOWC is a water utility subject to the jurisdiction of this Commission.
2. DOWC needs external funds to be used for improvements in Johnson Park District.
3. The money, property, or labor to be procured or paid for by the proposed borrowing is reasonably required for the purposes specified in the Application.
4. The reasonableness of any resulting interest rate and cost of money arising from debt capital are normally subject to review in cost of capital or general rate case proceedings.
5. The Commission does not by this decision determine that DOWC's construction budget presented herein is necessary or reasonable for ratemaking purposes.
6. The proposed borrowing is for proper purposes.
7. Notice of the filing of the Application appeared on the Commission's Daily Calendar of February 25, 2005. There is no known opposition to this Application, and the authority requested should be granted.

Conclusions of Law

1. This is a ratesetting proceeding.

2. A public hearing is not necessary.
3. The Application should be granted to the extent set forth in the order that follows.
4. This authorization is not a finding of the value of DOWC's stock or property, nor does it indicate approval of matters subject to reasonableness review in ratemaking proceedings.
5. DOWC should pay the fee determined in accordance with Pub. Util. Code § 1904(b). The amount of the fee is \$1,000 based on a \$500,000 financing amount. The fee is determined as follows: $\$2 \times (500,000 / 1,000) = \$1,000$.
6. The following order should be effective on the date of signature.

O R D E R

IT IS ORDERED that:

1. Del Oro Water Co., Inc. (DOWC) is authorized, pursuant to § 816 et seq. of the Pub. Util. Code, to secure a loan in an amount not to exceed \$500,000 upon terms and conditions substantially consistent with those set forth or contemplated in Application 05-02-024 (Application).

2. DOWC shall apply the proceeds of the loan for capital improvements within the Johnson Park District service area as set forth in the foregoing Opinion.

3. DOWC shall execute and deliver the security agreement in the manner set forth in the North Valley Bank loan offer letter of November 26, 2004.

4. A copy of the promissory note and loan contract agreement shall be filed with the Water Division within 15 days after execution.

5. DOWC shall retain all invoices related to the capital expenditures financed by the loan so that Commission staff may confirm that the loan was properly used for the stated purpose.

6. DOWC shall maintain adequate records to enable Commission staff to audit the payments of principal and interest on the loan.

7. DOWC shall submit reports to the Water Division on any portion of the project that is completed no later than thirty (30) days from completion.

8. In order to include capital expenditures for the Johnson Park District in rate base, DOWC shall file an advice letter once the plant additions have been completed and are being used and useful, subject to reasonableness review.

9. The authority granted by this order shall become effective when DOWC pays \$1,000, the fee required by Pub.Util. Code § 1904(b).

10. Application 05-02-024 is closed.

This order is effective today.

Dated July 21, 2005, at San Francisco, California.

MICHAEL R. PEEVEY
President
GEOFFREY F. BROWN
SUSAN P. KENNEDY
DIAN M. GRUENEICH
JOHN A. BOHN
Commissioners